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Paul Matson
Director

**MINUTES OF A PUBLIC MEETING OF THE
ARIZONA STATE RETIREMENT SYSTEM
OPERATIONS, AUDIT & LEGISLATIVE COMMITTEE**

**Wednesday, July 26, 2017
2:30 p.m., Arizona Time**

A quorum of the Operations, Audit & Legislative Committee (OALC) of the Arizona State Retirement System (ASRS) met in public session in the 14th Floor Conference Room of the ASRS Office, 3300 N. Central Avenue, Phoenix, Arizona 85012. Mr. Clark Partridge, Chair, called the meeting to order at 2:30 p.m.

The meeting was teleconferenced to the ASRS office at 4400 E. Broadway, Tucson, Arizona 85711.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Clark Partridge, Chair
Mr. Jim Hillyard, Vice-chair
Mr. Harry Papp
Mr. Rene Guillen (arrived at 2:34 p.m.)

A quorum of the Committee was present for the purpose of conducting business.

2. Approval of the Minutes of the April 11, 2017 Public Meeting of the OAC

Due to the new composition of the OALC, Mr. Clark Partridge accepted the minutes of the April 11, 2017 public meeting of the Operations and Audit Committee as presented.

3. Presentation and Discussion Regarding the Introduction to the Roles, Responsibilities and Charter of the Operations, Audit and Legislative Committee

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, welcomed Trustees and staff to the new Operations, Audit and Legislative Committee. Mr. Guarino highlighted some of the responsibilities of the Committee as outlined in the OALC Charter recently updated in the Board Governance Policy Handbook at the May 28, 2017, Board meeting. Mr. Guarino indicated there are a number of topics lined up to complete the agendas for the next couple of meetings, providing the Committee an opportunity to familiarize themselves with the ASRS' activities and determine what topics the Committee is most interested in discussing.

Mr. Rene Guillen arrived at the meeting at 2:34 p.m.

4. Presentation, Discussion, and Appropriate Action Regarding ASRS Budget-Related Topics Including:

- a. Presentation/update of the ASRS Appropriated and Continuously Appropriated Budget Plans to include the ASRS Administrative and Investment Spending Plans for FY 2018.**
- b. Presentation of the ASRS Appropriated and Continuously Appropriated Budget Request and the ASRS Administrative and Investment Spending Plans for FY 2019.**

Mr. Guarino introduced the topic and reviewed the budget administration objectives with the Committee before turning the presentation over to Mr. Russ Levine, Budget and Procurement Manager, and Ms. Kerry White, Assistant Chief Investment Officer.

Mr. Levine reviewed the budget process and the following regarding the Administrative Spending Plan with the Committee:

- Fiscal Year (FY) 2019 budget request
 - Decrease the appropriated budget due to process efficiencies and reallocation of staff; reduce funding and FTEs
 - Decrease appropriated funding for LTD program administration due to cost savings

Mr. Levine responded to questions from the Committee and then turned the presentation over to Ms. White to review the Investment Spending Plan as follows:

- FY 2019 budget request
 - Decrease due to reduction in manager fees through passive management rather than active management

Ms. White responded to questions from the Committee.

Motion: Mr. Jim Hillyard moved to accept and forward to the ASRS Board an appropriated budget request for FY2019 in the amount of \$24,642,700, an administrative spending plan of \$31,195,700, and an investment spending plan of \$145,409,300. Mr. Harry Papp seconded the motion.

By a vote of 4 in favor, 0 opposed, 0 abstentions, 0 excused, and 0 vacancies, the motion was approved.

5. Presentation, Discussion and Appropriate Action Regarding the ASRS' Performance in the CEM Pension Benefit Administration Benchmarking Survey for the Period Ending June 30, 2016

Ms. Jody MacIntosh, Vice-President, CEM Benchmarking Inc., was present and provided the FY 2016 results for the ASRS. Ms. MacIntosh explained how the peer comparisons are done, and also discussed how the ASRS ranks among its peers. CEM's analysis also explains how the ASRS can make improvements to its score.

The ASRS has participated in the CEM pension benefit administration benchmarking study since 2001. Each year, the ASRS submits data regarding service features, transaction volume, and costs and staffing, broken down by activity, membership, and plan design. CEM compiles the results and provides a report detailing the cost effectiveness of the ASRS. Specifically, the report compares and contrasts:

- Peer Characteristics
- Service Levels
- Total Costs
- Cost by Activity
- Staff Costs and Productivity
- Transaction Volumes
- Complexity
- IT and Major Projects

Currently, the ASRS spends \$78 per active member and annuitant which is below the peer average of \$103. Additionally, the ASRS' service score was 88 which is above the peer median of 82. The outcome demonstrates the ASRS has a productive, low cost, and cost effective operation that provides high levels of service.

6. Presentation, Discussion, and Appropriate Action Regarding the Internal Audit Quarterly Update

Mr. Bernard Glick, Chief Internal Auditor, Internal Audit Division (IAD), provided a summary of the IAD Quarterly Audit report to the Committee. Mr. Glick shared that although IAD was operating with one less employer auditor due to the hiring freeze, the team completed 25 audits which is above the average of 22. Mr. Glick announced the Pension / Survivor Benefit final audit was not addressed due to the lack of an internal auditor for approximately eight months in 2016. The field work for the ASRS Management Fees audit is now complete with a closing conference being scheduled for August 16, 2017.

7. Presentation, Discussion and Appropriate Action Regarding the ASRS Fiscal Year 2018 Audit Plan

Mr. Glick presented the Audit Plan for FY 2018 to the Committee. Mr. Glick explained that the plan is based on an ongoing risk assessment being conducted by executive and senior management under the oversight of the OALC and in collaboration with the IAD. The plan also includes audits of areas that haven't been audited in the past five years, which includes management / administration fees-investments. Additionally in the plan are audits of areas requiring annual review due to materiality or governance requirements.

Motion: Mr. Jim Hillyard moved to accept and forward to the ASRS Board the FY 2018 Audit Plan. Mr. Rene Guillen seconded the motion.

By a vote of 4 in favor, 0 opposed, 0 abstentions, 0 excused, and 0 vacancies, the motion was approved.

8. Presentation, Discussion and Appropriate Action Regarding Future Meeting Dates

The Committee reviewed the proposed meeting schedule and discussed options for meeting times and duration. The Committee agreed setting aside three hours for meetings would be sufficient and afternoons worked best for their schedules. The Committee also agreed meeting quarterly was adequate but if there was an urgent matter that needed their attention an adhoc meeting could be scheduled when necessary.

Motion: Mr. Jim Hillyard moved to approve the proposed 2017 and 2018 OALC meeting schedule as follows:

- October 4, 2017, Wednesday, 10:30 a.m.
- January 3, 2018, Wednesday, 2:30 p.m.
- April 4, 2018, Wednesday, 2:30 p.m.
- July 11, 2018, Wednesday, 2:30 p.m.
- October 3, 2018, Wednesday, 2:30 p.m.

Mr. Rene Guillen seconded the motion.

By a vote of 4 in favor, 0 opposed, 0 abstentions, 0 excused, and 0 vacancies, the motion was approved.

9. Request for Future Agenda Items

None were requested.

10. Call to the Public

There were no members of the public in Phoenix requesting to speak. There were no members of the public in Tucson.

11. Adjournment of the OALC

Motion: Mr. Harry Papp moved to adjourn the meeting at 3:57 p.m. Mr. Jim Hillyard seconded the motion.

By a vote of 4 in favor, 0 opposed, 0 abstentions, 0 excused, and 0 vacancies, the motion was approved.

Respectfully Submitted,

Melanie A. Alexander
Committee Administrator
ARIZONA STATE RETIREMENT SYSTEM